



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Special Session

Bill #	HB 9	Title:	\$400 rebate for property taxes paid, tax relief
Primary Sponsor:	Jon Sonju	Status:	As Introduced

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|--|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Include in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$99,758,567	\$0	\$0	\$0
Revenue:				
General Fund	\$4,021,685	\$0	\$0	\$0
Net Impact-General Fund Balance	<u><u>-\$95,736,882</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

Description of fiscal Impact:

This bill provides a rebate of up to a \$400 in property taxes paid over three years to qualified Montana homeowners on their primary residence. General fund revenues in excess of \$1.802 million will be returned to homeowners through an income tax credit. There is a statutory appropriation for the \$400 rebate.

FISCAL ANALYSIS

Assumptions:

Property Tax Rebate

1. Section 2 of this bill would provide owners of a primary residence in Montana a rebate on TY 2004, TY 2005, and TY 2006 property taxes assessed and paid up to a maximum rebate amount of \$400.
2. Based on figures from the 2005 American Community Survey, there are 254,458 owner-occupied houses in Montana.
3. It is assumed that all 254,458 households will qualify for the full \$400 rebate. The total amount of rebates households would be eligible for would be \$101,783,200 (\$400 X 254,458).
4. This fiscal note assumes that 97% of households will claim the rebate and the full amount will be paid in FY 2008. Based on these assumptions, the general fund expenditure in FY 2008 is \$98,729,704 (\$101,783,200 X 97%).

5. Taxpayers who claim an itemized deduction for property taxes on their 2006 state income tax returns would be required to report their rebates as income on their 2007 tax returns. It is assumed that all income taxpayers who itemize would be receiving \$400 in rebate.
6. In 2005, 161,311 resident households claimed an itemized deduction for property taxes. Based on recent growth in the number of itemizers, this number is expected to grow 6% to 170,990 by 2007. These households will report their rebates as an additional \$68,396,000 ($\$400 \times 170,990$) of income on the 2007 income tax returns they file in the spring of 2008.
7. In 2005, the average marginal tax rate of taxpayers who claimed an itemized deduction for property taxes was 5.88%. Taxpayers who receive rebates and took an itemized deduction for property taxes in 2006 will owe an additional \$4,021,685 ($5.88\% \times \$68,396,000$) when they file their 2007 income tax returns in the spring of 2008.
8. The Department of Revenue will hire 58 temporary employees to administer the rebate program. Personal services costs for these employees would be \$215,634. Associated operating costs would be \$60,706 and equipment costs would be \$6,050. Computer systems costs would be \$300,000. The cost of developing, printing, and mailing rebate checks would be \$446,473. Total costs for the department to administer the rebate program would be \$1,028,863.

Income Tax Credit

9. Section 5 provides for an income tax credit to Montana homeowners who pay property taxes on a primary residence. The credit is equal to a multiplier times the amount of the taxes from the state equalization mills (95 mills) applied to \$20,000 in market value beginning in tax year 2007.
10. For 2007, the multiplier is to be 0.1 times the amount, in millions, by which FY 2007 general fund revenue exceeds \$1,802 million. For 2008, the multiplier is 0. The multiplier for 2009 and later years is initially set to zero, and the revenue and transportation interim committee is to recommend legislation to set it at another value if justified.
11. General fund revenue for FY 2007 is projected to be \$1,762 million. Thus, the multiplier will be zero and there will be no credits.
12. There are 254,458 owner-occupied houses in Montana (2005 American Community Survey). Based on workload estimates for the next four years, the Department estimates that number to increase by 1% per year to 259,573 in 2007.
13. Under current law, the residential property homestead exemption for tax year 2007 is 33.2% and the tax rate is 3.07%.
14. If general fund revenue for FY 2007 exceeds the \$1,802 million trigger amount, credits are expected to be \$1.011 million for each \$1 million by which revenue exceeds the trigger ($0.1 \times \$20,000 \times 66.8\% \text{ of value after homestead exemption} \times 3.07\% \text{ tax rate} \times 259,573 \text{ households}$).
15. Taxpayers who receive the credit and itemize deductions on their federal income tax returns will have smaller deductions for state income taxes. In addition, refunds that taxpayers receive because of this credit must be included in federal gross income for federal income tax. Both of these will increase federal income taxes. Taxpayers who pay more in federal income taxes because of the credit and claim an itemized deduction for federal taxes on their state income tax returns will pay less in state income tax.
16. If the trigger is hit and the multiplier increases to above zero, the Department of Revenue will incur administrative costs to implement and audit the credit.

	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	11.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$215,634	\$0	\$0	\$0
Operating Expenses	\$807,179	\$0	\$0	\$0
Equipment	\$6,050	\$0	\$0	\$0
Transfers	\$98,729,704	\$0	\$0	\$0
TOTAL Expenditures	<u><u>\$99,758,567</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$99,758,567</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u><u>\$99,758,567</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
<u>Revenues:</u>				
General Fund (01)	<u>\$4,021,685</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Revenues	<u><u>\$4,021,685</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	-\$95,736,882	\$0	\$0	\$0

Long-Range Impacts:

The income tax credit in Section 5 would be paid in future years only if future legislatures set the relief multiple in Section 5 to a positive value.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date